

## Town Manager's Budget Message

TO: George Fitch, Mayor  
Members of Town Council

FROM: Clinton H. Strong  
Interim Town Manager

DATE: February 15, 2002

I am pleased to submit for consideration by Town Council and the citizens of Warrenton the recommended budget for fiscal year 2002/2003 according to the Town Charter and Code. The budget is designed to represent a plan for Town operations, maintenance, capital investments and debt service for the period of one year. Town policy is to present the budget in two sections. The first is the General Fund budget, which is supported by local tax revenues, fees and state reimbursements to provide typical local public services such as police and refuse collection. The second is the Proprietary (Enterprise/Utility) budget that is intended to be financed from revenues generated by customers or user fees and provide such services as water treatment.

### **Budget policy**

As interim Manager I immediately initiated discussions as to programs and finances with Council, staff and other area elected and professional resources to determine priorities in services and funding. Priorities were quickly determined to be sustaining the present level of public services expected by the residents, continue tax rate adjustments to, at a minimum, offset assessments where there is no negative impact on services or long-term plans, and continue a commitment to efficiency and services.

As the budget process moved forward, a funding philosophy evolved that guided recommendations that should be shared for Council information. The County provides basic core public services such as education, welfare, public safety, health and judicial. Town residents are County residents receiving these services in exchange for their paying County taxes. Conversely the Town is a compact and more densely populated semi-urban unit of government within the County providing services unique to the Town or supplemental to the County based on need and desire. The Town residents pay taxes for Town services that should be unique or supplement County services. Planning, zoning, street maintenance, refuse collection, water /sewer services for example. Due to size and compactness, Town services should be very efficient and responsive.

There is a need, however, to be vigilant to avoid Town taxpayers paying twice for services. This budget thinking is most evident in donations to "outside" semi-public agencies. Outside agencies provide quality services and have reasonable increase requests but have been recommended for level funding based on this philosophy. This policy, if continued, should help keep the Town small, efficient, responsive and inexpensive.

It is also recommended that the budget submittal date be on or after March 15 of each year. This will allow the budget to incorporate most of the decisions of the Virginia General Assembly as they impact both revenue and expenditures. Better information will avoid unnecessary budget adjustments based on General Assembly decisions not known at the time currently specified for budget submittal to the Council. Should Council need more time for budget deliberations, they could adopt the real estate levy in advance of final budget approval.

The discussion that follows will first focus on noteworthy changes in revenues followed by an overview of significant expenditure change. Line

item and program discussion is reserved for the review of individual department budgets.

### Departmental Budgets for FY 2003

The proposed budget for fiscal year 2003 is broken down by General Fund, Water/Sewer (Utilities) Fund, and Capital Projects Fund. In preparation of the Governmental Accounting Standards Board (GASB34) revision to reporting, the cemetery fund expenditures for maintenance and the related revenues are now part of the General Fund under the Parks and Recreation category. The Motor Pool is shown in these documents as a reference item only, as it is considered an internal service fund and is allocated to departments at the end of the fiscal year.

	Approved Budget FY 2000	Approved Budget FY 2001	Approved Budget FY2002	Proposed Budget FY2003
General Fund	\$5,750,553	\$5,904,227	\$6,079,126	\$6,751,668
Water/Sewer Fund	\$3,772,575	\$3,768,934	\$3,918,034	\$4,806,540
Capital Projects Fund	\$1,217,500	\$1,283,375	\$ 484,803	\$1,015,002
Motor Pool	\$ 280,390	\$ 301,033	\$ 325,227	\$ 353,651

### General Fund Budget

The general fund budget increases from \$6,079,126 to \$6,751,668, which is an increase of \$672,542, which consists mostly of fund transfers to Capital Projects (\$715,002), reflects moving the maintenance of the Cemetery to the Parks and Recreation section of the General Fund, and again includes \$80,000 of “pass through” funds for the Loudoun Transit. The Budget:

- Reduces the Real Estate Tax rate for the fifth straight year from \$0.05 per \$100 to \$0.03 per \$100 assessed value
- Completes a salary plan revision initiated by Council with the adoption of the current budget
- Initiates next year’s capital improvement projects

### General Fund Revenue Highlights

#### SUMMARY GENERAL FUND REVENUES FISCAL YEARS 2001 THROUGH 2003

	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
General Property Taxes	\$1,391,396	\$ 658,424	\$ 578,141
Other Local Taxes	3,125,085	3,372,902	3,927,768
Permits, Privilege Fees & Licenses	83,910	119,410	131,560
Fines & Forfeitures	81,000	90,000	77,000
Revenue from Use of Money/Property	253,367	192,283	203,150
Miscellaneous Revenue	52,291	61,440	42,300
Non-Categorical Aid	19,218	69,065	72,065
Categorical Aid	861,760	1,495,602	1,448,928
Non Revenue Receipts	0	0	270,756
Total General Fund Revenues	\$5,868,027	\$6,059,126	\$6,751,668

Significant changes in several revenue sources are outlined below. Most revenues are static or have minor changes based on historical figures and the slowing of the economy. It should also be noted that in preparation of GASB34 reporting in fiscal year 2004, that the maintenance type revenues (burial permits, etc.) of the cemetery are now part of the General Fund.

### Revenue Increases:

Personal property taxes and “Personal Property Tax Relief Act” revenues from the Commonwealth are estimated to increase 5% over the current fiscal year, based on preliminary estimates by the County. The tax rate remains at \$1.00 per \$100 assessed value and the reimbursement rate from the Commonwealth has been proposed to remain at 70%.

Consumer Utility taxes are budgeted to increase 32%. This is primarily due to the new construction in the past year and the combining of taxes for gas and electric services into new rates as adopted by Council last year. The franchise fees or “Business License” for gas and electric services were eliminated by federal regulation and new rates were adopted.

Given recent reports regarding the effect of September 11 on local revenues, meals and lodging taxes have also increased as families appear to be staying closer to home for the time being. Also included in the increase is the anticipated opening of Holiday Inn Express late in the fiscal year.

The last revenue to be discussed is the Transfer from Reserves. It is being proposed that \$270,756 be taken from the Economic Development reserves to help fund the proposed Visitors’ Center/Chamber of Commerce project at the Mosby Foundation site which is considered an economic development (tourism) project. These funds will be transferred to the Capital Projects fund.

### Revenue Decreases:

Preliminary figures for real estate assessments for tax year 2002, show an increase in assessed value of approximately 29% (not including new construction), due to reassessment. In order not to propose a rate increase due to the reassessment, the real estate tax rate would have to be lowered from \$0.05 to \$0.04 per 100% assessed value. It has been proposed to lower the real estate tax rate to \$0.03 per \$100 assessed value to maintain approximately the same revenues as the current year and to compensate for the roughly \$23,000,000 in new construction in the past year. While the past several years have seen significant new construction in Warrenton, new construction in Town will be decreasing in future years as the Town becomes built out.

Property Assessed Value	Property Bill at Real Estate Rate per \$100 of Assessed Valuation						Annual Savings FY1998 to FY2003
	FY1998 18¢	FY1999 17¢	FY2000 14¢	FY2001 11.5¢	FY2002 5¢	FY2003 3¢	
\$100,000	\$180.00	\$170.00	\$140.00	\$115.00	\$50.00	\$30.00	\$150.00
\$150,000	\$270.00	\$255.00	\$210.00	\$172.50	\$75.00	\$45.00	\$225.00
\$200,000	\$360.00	\$340.00	\$280.00	\$230.00	\$100.00	\$60.00	\$300.00

Major decreases in revenues are in anticipated State revenues (other than the personal property tax relief revenue). Currently, all reports out of Richmond are indicating that the Commonwealth's budget is being reduced approximately 6%. Law enforcement revenue (HB599) has already been cut for the current fiscal year and it is estimated that another 3% will be cut next fiscal year. ABC profits have also been cut for the next biennium and the Town's budget shows a reduction in highway funding of 6% based on the preliminary reports. To date, only the ABC profits report has been received by the Town while the Commonwealth's budget is being worked out.

### **General Fund Expenditure Highlights**

#### SUMMARY GENERAL FUND EXPENDITURES FISCAL YEARS 2001 THROUGH 2003

	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
Legislative Department	\$ 95,498	\$ 97,316	\$ 95,484
Executive Administration	158,504	162,675	147,926
Legal Services	103,570	103,590	103,551
Finance Department	301,104	315,862	320,508
Memberships & Dues	4,056	4,056	4,450
Data Processing Department	91,756	119,254	138,244
Electoral Board & Officials	0	4,950	0
Public Safety Department	1,867,986	1,930,801	2,060,748
Public Works Department	2,096,974	2,184,131	2,155,215
Contributions	77,100	127,200	134,900
Parks and Recreation	152,325	144,292	152,007
Planning & Community Development	483,863	463,480	494,402
Transfers & Reserves	455,635	355,628	876,312
Debt Service	15,856	65,891	67,921
Total General Fund	<u>\$5,904,227</u>	<u>\$6,079,126</u>	<u>\$6,751,668</u>

As evident in the summary above, \$520,684 of the \$672,542 increase in the FY2003 General Fund budget is attributable to Transfer and Reserves. This section of the budget accounts for Transfers to Reserves, Reserves for Contingencies and Transfers to the Capital Projects Fund. It is being recommended that \$715,002 of General Fund monies be transferred to fund capital projects, an increase of \$359,374. Included in the \$715,002 amount is \$270,756 that is being transferred from the Business Park reserves to help defray the costs of the Visitors Center/Chamber of Commerce project.

### **Issues that Transcend Budgets**

Throughout the Town's budgets there are several major operational factors which affect both the General and Proprietary Fund budgets. These include:

- Personnel costs – implementation of new Performance Appraisal plan
- Health insurance costs
- General liability, property, workers compensation and Public Officials Liability insurances

**Salary impacts:**

In accordance with Council's directive during last year's budget process, the Finance/Human Resources Director is working with an employee group to completely revamp the Performance Appraisal System. This system will be a 0 – 7% scale, using a combination of other jurisdictions' evaluation systems. Evaluations for employees, and the accompanying pay increase, will be on their anniversary date (normally date of hire). Those employees at the top of their scale will also receive an evaluation and a lump sum increase, which will not affect retirement or life insurance costs.

	Budgeted Salaries		Increase
	FY 2002	FY 2003	
General Fund	\$2,547,992	\$2,528,277	\$19,715
Water/Sewer Fund	3,758,098	3,769,732	11,634
Motor Pool	118,725	120,931	2,206
Total	\$6,424,815	\$6,418,940	\$33,555

The above scale reflects the increase in salaries only for the new Performance Appraisal System. It should be noted that these are net figures due to changes in personnel during the year.

The traditional Cost of Living increase has been eliminated. Funding on the departmental level has been incorporated for the new evaluation process. This budget also calls for the beginning and ending pay for each classification to be adjusted upward. A market adjustment of 2% has been recommended for this. No employee will receive any additional compensation July 1, 2002 unless they are below that position's entrance level salary. Employees below the entrance level will be brought up to scale. Employees at the top of the range receive no additional compensation July 1, 2002 but will now have room in the performance plan for recognition as part of their recurring compensation.

The salary scales will need to be reviewed every January to keep ranges within market. This will not be a salary increase for employees and because no funding will be necessary there is no budget line item. The cost of bringing employees below scale up to the scale is \$5,987. This includes all general fund and utility fund employees. It is important to realize that no employee will receive any additional compensation on July 1 unless they are below the entrance step or this is their anniversary date for performance consideration.

As part of changing the evaluation system and salary scales, \$20,000 has been budgeted in contingencies to have a consultant review and update the Town's classification plan and to perform a salary survey of surrounding jurisdictions. The last time the classification plan was updated was June 1990 and a limited salary survey was done in January of 2000. In order to reduce bias and update job descriptions, it is recommended that this be approved to be effective in fiscal year 2004.

**Health insurance costs:**

The preliminary figures for health insurance shows an increase of 23.5%. For the past several years, the Town has been fortunate that claims have not exceeded premiums, but unfortunately, this past year has been subject to higher claims which has resulted in a higher than usual increase in premiums. Also, a small portion of the increase is attributable to an industry wide increase due to the events of September 11. In past years, the Cost of Living Increase has helped employees offset the increase in health insurance premiums. With the elimination of the COLA, it is being

recommended that the Town pick up this increase so there is no negative impact on employees on July 1 when the insurance increase begins. Unless the Town picks up the employee share of the increase, all employees on other than single coverage would actually see a reduction in the net take home pay. Just as employees receive no increase with the beginning of this budget, neither should any employee suffer a reduction in pay with this budget. An employee paying family insurance with a current weekly net pay of \$406.97 is paying \$34.07 per week for insurance. Without the Town absorbing the increase in costs and the elimination of the COLA, the same employee's take home pay would decrease by \$8.01 or \$384.48 per year.

The increased cost of health insurance is partially offset by the reduction in retirement costs. Due to the recent actuarial study done by the Virginia Retirement System, the Town's rate has been decreased from 6.09% of covered payroll to 4.0% (does not include employee's 5%).

	Health Insurance Costs			Retirement Costs		
	FY 2002	FY 2003	Increase	FY 2002	FY 2003	Decrease
General Fund	\$292,866	\$380,064	\$87,198	\$307,942	\$227,545	\$80,397
Water/Sewer Fund	132,252	168,946	36,694	131,948	100,847	31,101
Motor Pool	10,892	13,703	2,811	14,354	10,884	3,470
Total	\$436,011	\$562,713	\$126,703	\$454,244	\$339,276	\$114,968

#### **General Liability, Property and Workers Compensation Insurance:**

The Town has been notified by the VML Insurance Programs that due to the events of September 11<sup>th</sup>, the loss to the insurance industry is estimated to be \$30 to \$60 billion. This has caused all insurance premiums to increase on top of the increases incurred during the year. Based on the information received from VML, a 15% increase in automotive, liability, public officials, law enforcement and property coverage has been budgeted as well as a 4.4% rate increase for workers compensation. Also included as an increase in the Buildings and Grounds department is the estimated cost of premiums for the Public Safety Facility.

	General Liability/Property Insurance		
	FY 2002	FY 2003	Increase
General Fund	\$12,987	\$15,587	\$2,600
Water/Sewer Fund	36,290	55,177	18,887
Motor Pool	21,700	32,529	10,829
Total	\$70,977	\$103,293	\$32,316

#### **Water/Sewer Fund Budget**

The Water/Sewer Fund budget increases from \$3,918,034 to \$4,806,540, which is an increase of \$888,506, attributable mostly to the Cedar Run Pump Station upgrade (estimated at \$793,393), which must be done to meet current and projected growth. The proposed budget contains no fee increases for the sixth year, however, it should be noted that operating expenses for the proposed budget are being partially funded by a transfer from the undesignated retained earnings.

SUMMARY WATER/SEWER FUND REVENUES  
FISCAL YEARS 2001 THROUGH 2003

	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
Permits Privilege Fees & Licenses	\$ 7,700	\$ 7,700	\$ 7,900
Revenue from Use of Money/Property	106,700	204,052	202,000
Charges For Services	3,047,600	3,023,500	3,279,215
Miscellaneous Revenue	23,750	22,650	22,200
Grant Revenue	0	27,600	0
Non-Revenue Receipts	507,825	632,532	745,300
Transfers & Reserves	75,359	0	549,925
Total Water/Sewer Fund Revenues	<u>\$3,768,934</u>	<u>\$3,918,034</u>	<u>\$4,806,540</u>

The proposed FY2003 budget may be considered a maintenance level budget, with increases occurring in salaries, benefits and insurances. Major increases proposed are for contractual repairs in the wastewater plant operations budget (two roofs, repaired in the past, need to be replaced and one comminutor needs to be replaced at the Cedar Run lift station), increased costs in replacements meters in the meter reading budget and the increase in salaries in transmission and distribution budget, due to the decreased number of water line projects in the capital projects portion of the utilities budget.

SUMMARY WATER/SEWER FUND EXPENSES  
FISCAL YEARS 2001 THROUGH 2003

	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
Meter Reading	\$ 181,757	\$ 192,797	\$ 232,908
Source of Supply	478,301	526,760	541,700
Transmission & Distribution	340,502	350,373	392,948
Wastewater Plant Operation	862,693	893,069	985,493
Water/Sewer Administration	466,779	505,583	541,608
Capital Projects	634,009	612,243	1,148,535
Debt Service	804,893	837,209	808,005
Transfers and Reserves	0	0	155,343
Total Water/Sewer Fund Expenses	<u>\$3,768,934</u>	<u>\$3,918,034</u>	<u>\$4,806,540</u>

**Summary**

The proposed FY2003 budget provides for the continuation of the services the community has come to expect with no increases in fees or taxes and a reduction of the real estate rate for the sixth year in a row and follows Council's directives.

Details of each department and section follow the respective narrative for that department or section.